



August 17, 2022

Mr. Peter Donkers, Chair
Farm Industry Review Board
PO BOX 9129 Stn Prov Govt
Victoria, BC V8W 9B5
BY EMAIL:

**RE: BCFIRB INITIAL EXPECTATIONS AND DIRECTIONS - BC CHICKEN MARKETING BOARD
(CHICKEN BOARD) LONG TERM FORMULA DEVELOPMENT PROCESS**

Dear Mr. Donkers,

The British Columbia Chicken Marketing Board (the “Chicken Board”) is in receipt of the August 9, 2022 letter to you from the Primary Poultry Processors Association of British Columbia (the “PPPABC”) regarding *Chicken Live Price – Supervisory Review Panel*. The Chicken Board reviewed the letter at its August 12, 2022 meeting along with your letter of August 8, 2022 *BCFIRB Initial Expectations and Directions – BC Chicken Marketing Board (Chicken Board) Long Term Formula Development Process*.

The Chicken Board is deeply disappointed with the tone and substance of the PPPABC response. The Chicken Board is also confused with the PPPABC closing statement that they “will participate with an observer only and under protest”. The Chicken Board is interested in receipt of the Panel’s interpretation and response to this statement.

Handling of the Pricing Review Process

The Chicken Board takes exception with the allegations made by the PPPABC of the Chicken Board’s handling of the Pricing Review Process. The Chicken Board in its March 4, 2022 Final Decision – BCCMB Long Term Pricing Formula for Mainstream Chicken, provided its analysis and assessment of the documents in question by the PPPABC. The Chicken Board also retained a third party to address the question of grower sustainability and assessment of the various models presented by the growers and PPPABC (Appendix B). The Chicken Board has been open and transparent in its decision making. The Chicken Board has applied sound marketing policy to its due consideration of all stakeholder interests and concerns in defining the process that will lead to a BC Cost Recovery Model.

The allegation by the PPPABC that “The BCCMB has not provided adequate or meaningful analysis to support any of their pricing decisions” is without any substantive evidence to support such allegations. The PPPABC has throughout the process gone to the Review Panel with their specific process concerns and bypassed the Chicken Board. In our meeting with the PPPABC on July 27, 2022, we asked the PPPABC if they would share their concerns and position that they had presented to the Review Panel with the Chicken Board to see if there was some ability to resolve issues to enable their participation in the Cost Recovery Model Committee. The PPPABC response was that they would not share and would await the Review Panel’s response.



Contrary to what the PPPABC is attempting to assert, Chicken Board has been sensitive to the tenants of the Terms of Reference (TOR). To be clear, the TOR were created for the purpose of developing a long-term Pricing strategy and a model (pricing of live chicken) for the use in the BC chicken industry. Those terms were met when the Board submitted its final proposal to FIRB in March of 2022, and will continue to be respected to completion of the Supervisory Review. The Chicken Board extensively consulted with PPPABC and considered proposals of up to seven different pricing models. Ultimately, it's the responsibility of the Chicken Board to make the best decision for the industry in accordance with sound marketing policy and balancing divergent positions with respect to reasonable returns to growers and processor competitiveness in moving forward with the task of a long-term pricing model. The process undertaken was onerous, in many circumstances complicated by the onset of COVID and trying to match other stakeholders' schedules. The PPPABC continuing to assert that their model was the better choice is irresponsible and does not recognize the pricing authority of the Chicken Board. In the final submission the Chicken Board outlined in detail why the fixed differential model was a less desirable outcome for the BC industry.

Grant Thornton Information

This submission was reviewed and discussed in detail with the PPPABC and compared to the submission by the BCCGA, and finally discerned by Hugh Scorah with the details of that discussion also contained in the final submission. In short, the Grant Thornton model was based on assumptions that were narrow in focus and did not contain a complete narrative which skewed the results and resulted in an incomplete conclusion.

Agri Stats document

This is likely one of the most commented on pieces of information from the processors who continue to reference as their consideration for why there is a disconnect with the Board on how BC processors are being disadvantaged in the West. Unfortunately, the board did not agree with the processors on their interpretation of the presentation and on more than one occasion told the PPPABC their data was comparing 'Apples to Oranges'. The data was helpful in demonstrating that many plants in the East are 'Kill Chill plants' while the Western processing sector have complete plants which measure output by the finished product not at the chill tank. This is a different metric, and although the Agri Stats data had one slide which outlined the pricing difference between East and West it also referenced the fact there's premiums and other incentive payments in the East that could account for the difference. When you consider that dynamics of the industry in the west (i.e., proximity to farms and the market; Grier and Mussel) the difference expressed by the Agri stats Data is offset by the advantages here in the west both in proximity and transport incentives. In fact, there are reports prior to the more recent corn-wheat divergence, to the effect that BC processors have had landed chicken on the processor doorstep at an equal cost to Eastern counterparts when including transportation costs and estimated premiums paid to growers (FERENCE). The Chicken Board is responsible to deliberate all of the information presented.

Grower Returns

PPPABC makes the claim "where the BCFIRB stated that they were unaware of the current magnitude in grower returns. It is very concerning to learn that the BCCMB appears to be withholding this type of information from BCFIRB when requesting pricing adjustments as this information provides a clear understanding of how the adjustments are impacting grower returns". The letter goes on later to say "the BCCMB pricing review process has provided growers with record financial returns". To be clear, the BCCMB has not withheld any information and the accusation is incorrect. The Board would like to note the incredible contradiction in the PPPABC's behaviour and assertions. The PPPABC claim that growers are making record returns yet refuse to acknowledge the increases costs that growers experience –



increased 'revenue' to cover inflated costs does not equal increased returns or profit. The use of the term returns is not defined by PPPABC in the context of total cost recovery. Their use of returns is to land, labour and capital in which there is difference of opinion as to the methodologies used by Serecon in the linkage COP. It must be noted, record revenue when live price is at its highest level and production levels continue to increase is an obvious reality and the same can likely be said of any commodity both growing in volume and undergoing unprecedented inflationary pressures. Hence, volume times price will yield "record" revenues, but growers are also faced with unprecedented record feed costs and inflationary cost pressures on nearly all inputs.

Additionally, if the assertion was true that growers are making excess returns, this will come out as a result of the Grower Cost Recovery Model. The Board has never guaranteed the Grower Cost Recovery Model will provide an increase or decrease to the BC Live price, its intention is to provide an accurate and fair live price. This also highlights the Board's continued concern that PPPABC continues to stress and spend their efforts on grower returns, rather than supporting the industry in finding measures of processor competitiveness. It should be noted in PPPABC's letter, they define 'processor competitiveness' as measured by the live price differential with Ontario net of catching, however, the Chicken Board has rejected the idea of a fixed differential.

PPPABC use the price of quota to illustrate a story about grower returns, "The result of all of these increases in grower returns is that BC growers are now receiving record financial returns such that they are now trading broiler quota in BC in excess of \$150 per bird which represents an increase of better than 25% since 2019". The Board argues this is a very disingenuous claim on a number of fronts. The Board does not track quota purchase dollar amounts so we cannot verify the exact amount of \$150. However, in a low interest rate market, we have seen asset values increase across the globe (i.e. real estate market, business valuations, etc.) and chicken quota has not been an exception to that. Furthermore, it is disingenuous to assign the inflationary cost of broiler quota solely on independent chicken growers when 31% of quota transfers was for corporate farms in 2020, and a further 26% of quota transfers was for corporate farms in 2021 (where corporate farms means farms with common ownership to processors). The BC Broiler industry does not currently have a quota exchange, and a significant amount of transfer forms are submitted and coordinated by hatchery and processor representatives.

Processor Interests

The PPPABC statement "significant concerns around how processor interests are being represented and the lack of objectivity of the BCCMB in the pricing review process" are completely unfounded. The fact that the PPPABC has failed to provide transparent and verifiable data other than live price and labour costs to represent processor competitiveness measures has not been helpful to the process. The PPPABC has and continues to ignore and discount the Chicken Board's adjustment to the Ontario weight class used as the basis for interim pricing in BC as being a measure to address BC processor competitiveness. It is also important to note, this comment is more perception than reality, as the Chicken Board has deliberated and discussed all PPPABC submissions at our regularly scheduled Board meetings. Simply put, PPPABC's disagreement with the Chicken Board's final decision does not mean the input provided was not considered.

As previously stated in meetings with the Review Panel, the Chicken Board has refused to engage in responding to the highly derogatory, negative commentary that the PPPABC has presented to the



Review Panel. The Chicken Board disagrees with the August 9th PPPABC letter in its entirety but does not wish to engage in the same rhetoric. Trust building between parties requires both parties to stand down from antagonistic positions, which from the August 9, 2022 PPPABC response does not seem to be the case. The Chicken Board continues to invite and encourage PPPABC to participate constructively through the Cost Recovery Model Committee towards achieving a long-term Grower Cost Recovery Model.

The Chicken Board requires the Review Panel to be clear in its expectations to all stakeholders that the Chicken Board has been provided the direction to proceed with the BC Cost Recovery Model Process and has the authority to exercise its decision-making authorities in accordance with sound marketing policy in establishing a new live price formula for British Columbia. The continued involvement of the Review Panel through its Review Liaison continues to provide stakeholders a mechanism to avoid engaging in the Chicken Board's process. The Chicken Board needs the clarity provided that failure by stakeholders to engage with the Chicken Board process will result in decisions being made based on information available at the time of decision and any information brought forward after the decision will not be accepted.

The Chicken Board requests a meeting with the Review Panel to further discuss the process going forward prior to any further correspondence being issued by the Chicken Board or BCFIRB.

BRITISH COLUMBIA CHICKEN MARKETING BOARD

Harvey Sasaki
Chair

Cc: BCCMB PPAC
BCBHEC
PPPABC
BCCGA